



May 2016

1st Quarter 2016 Market Commentary

Welcome to the fourth installment of the Abrahamson Investment Group quarterly newsletter. We hope you find the following topical and informative.

A rough start and an impressive rally

Volatility continued to dominate headlines early in the first quarter as oil fell below \$30 a barrel for the first time since December 2003 (Wall Street Journal) and stagnant growth in the Chinese economy weighed heavily on equity markets. However, the last third of the quarter saw a rally that took most of the indices positive on the year as oil and commodity prices rallied, strong U.S. job numbers continued, and a softening of the Federal Reserve's stance on rate hikes all helped to stifle fears of a domestic recession.

After a rebound in excess of 10% in the domestic equity markets, it is normal for the rally to give way to a consolidation period where indices are range bound for a period of weeks to months, as investors digest higher equity prices.

Period Ending March 31, 2016

	YTD	1 year	3 year	5 year	7 year	10 year	2015	2014	2013	2012	2011	2010	2009
Dow Jones Industrial Average	2.20%	2.08%	9.29%	10.27%	15.79%	7.54%	0.21%	10.04%	29.65%	10.24%	8.38%	14.06%	22.68%
NASDAQ Composite Index	-2.43%	0.55%	15.63%	13.22%	19.34%	8.71%	6.96%	14.75%	40.12%	17.45%	-0.83%	18.02%	45.32%
S&P 500	1.35%	1.78%	11.82%	11.58%	16.97%	7.01%	1.38%	13.69%	32.39%	16.00%	2.11%	15.06%	26.46%
Russell 2000	-1.52%	-9.76%	6.84%	7.20%	16.42%	5.26%	-4.41%	4.89%	38.82%	16.35%	-4.18%	26.85%	27.17%
MSCI EAFE	-3.01%	-8.27%	2.23%	2.29%	9.69%	1.80%	-0.81%	-4.90%	22.78%	17.32%	-12.14%	7.75%	31.78%
Barclays US Aggregate	3.03%	1.96%	2.50%	3.78%	4.52%	4.90%	0.55%	5.97%	-2.02%	4.21%	7.84%	6.54%	5.93%

In percentages, based on U.S. dollars

Source: RBC Wealth Management

Gold Rallies, the U.S. Dollar Falls

The first quarter of 2016 saw gold prices rally, as investors fled the volatility of stocks for the perceived safety of gold, while the U.S. Dollar fell on news that the Federal Reserve will take a cautious approach to future interest rate hikes.

The longer-term trend for gold, however, still bodes bearish, as the commodity continues to trade down in excess of 50% from its 2011 highs. Historically, gold and the U.S. stock market have an inverse relationship; as the equity markets outperform, gold underperforms.

Global headwinds and a stagnant U.S. economy will make the bullish case for the U.S. dollar harder to defend, while we continue to wait and see what the Fed's plan for the remainder of the year will be. RBC forecasts one additional rate hike in 2016, but 4 hikes next year.

Negative Interest Rate Policy

If you follow news surrounding the world markets, you've likely heard discussions regarding the

European Central Bank's (ECB) and the Bank of Japan's decision to enact a policy of negative interest rates. What does this mean, exactly?

During periods of deflation, people tend to stockpile cash versus spending, as prices of goods decline in a deflationary period. If an appliance or automobile will be cheaper in 6 months, there is little incentive to make that purchase today. In an effort to reverse these tendencies and encourage people to spend, these central banks will charge negative interest rates, meaning that depositors will actually pay the banks to continue to hold their funds.

Market Volatility

As we experienced late last summer and at the beginning of this year, market volatility has returned to the equity markets for the first time since 2011. With the lack of a technical correction between 2011 and 2015 (defined as a 10% drop in price from recent highs), you may have felt panicked watching the news or reviewing your statements. It's important to note, however, that intra-year declines are common. In fact, from 1980 through 2015, there have been negative intra-year declines every year as illustrated in the piece below. However, calendar year returns were positive in 27 of those 36 years. This piece helps to illustrate that while the emotions of fear and uncertainty during periods of volatility are strong, it's important to keep long-term investment goals in mind.

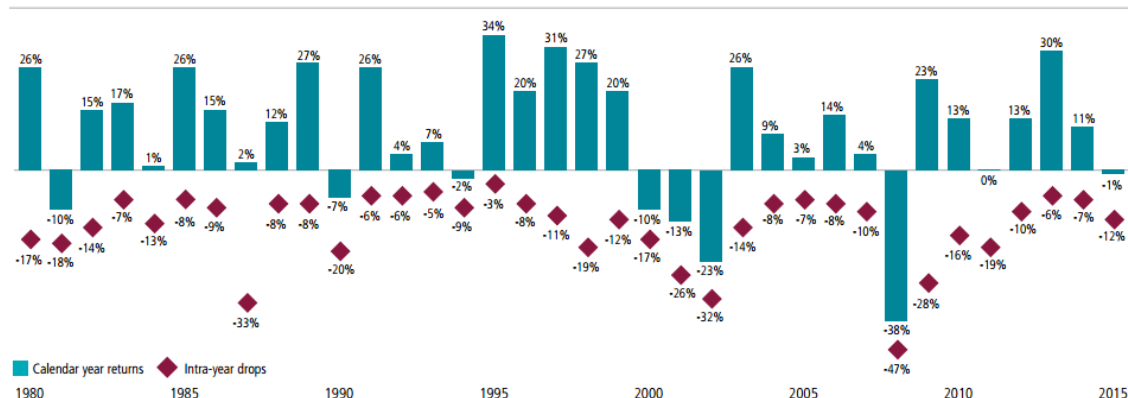
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A LOOK AT CORRECTIONS

S&P 500 Index: Calendar year returns and intra-year declines

During bouts of market volatility, short-term thinking is often an investor's worst enemy. Investors who can't look beyond the market's quick moves up and down may overreact and do more harm than good to their portfolios. It's the potential to capture a longer-term upward trend that keeps us invested through volatile periods — even if it comes at the expense of short-term underperformance. History has confirmed that these periods of decline don't last.



Source: Strategas.

Despite 28 times of falling more than 5% in a week on average, the S&P 500 rose almost 5% in the next 12 weeks.

Source: Bloomberg, "Here's What Usually Happens to Markets After the S&P 500 Drops 5 Percent in a Week," August 2015.

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Team Member Profile: Colby Spann

Colby joined the Abrahamson Investment Group in 2010 from Wells Fargo Home Mortgage, and graduated from Iowa State University with a Bachelor of Science in Finance. Colby's roles within the team include investment strategy implementation, marketing and technology support, and wealth management planning. Last year, Colby successfully passed the CERTIFIED FINANCIAL PLANNER™ examination and is now a CFP® professional.

Colby and his wife, Abby, live in Des Moines with their two dachshunds, Tyrone and Charles. Their passion for older homes has led them to a 1924 Dutch Colonial which has enough projects to keep them busy for years to come. Their next project will be adding a wood shop for Colby's woodworking interests.

You'll find Colby and Abby all over Des Moines on the weekends, especially the East Village, Noce Jazz Club & Cabaret, or the original Jesse's Embers. They are both advocates for what the city has to offer and are proud of all the accolades Des Moines has earned over the last decade.

As always, we truly hope you've found this review to be both educational and insightful. If there are particular topics you would like for us to discuss in a subsequent issue of the newsletter, please be sure to reach out and let us know!

We appreciate the opportunity to be of service. Please contact us if there is anything we can do to enhance your experience with us.

-The Abrahamson Investment Group
Kirk, Mike, Dana & Colby

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